

VZCZCXRO1081
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGO #0313/01 0870911
ZNY CCCCC ZZH
O 280911Z MAR 07
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5901
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1377
RUEHBY/AMEMBASSY CANBERRA 0237
RUEHKA/AMEMBASSY DHAKA 4511
RUEHLO/AMEMBASSY LONDON 1924
RUEHNE/AMEMBASSY NEW DELHI 3806
RUEHUL/AMEMBASSY SEOUL 7332
RUEHTC/AMEMBASSY THE HAGUE 0604
RUEHKO/AMEMBASSY TOKYO 4884
RUEHCI/AMCONSUL CALCUTTA 1087
RUEHCN/AMCONSUL CHENGDU 1102
RUDKIA/AMCONSUL CHIANG MAI 0932
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3093
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0734
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 04 RANGOON 000313

SIPDIS

SIPDIS

STATE FOR EAP/MLS;
PACOM FOR FPA,
TREASURY FOR OASIA:AJEWELL

E.O. 12958: DECL: 09/21/2016
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [PGOV](#) [BM](#)
SUBJECT: BURMA'S OFFSHORE WATERS BECOME MORE CROWDED

REF: A. 06 RANGOON 1818
[1](#)B. 06 RANGOON 1704

RANGOON 00000313 001.6 OF 004

Classified By: Econoff TLManlowe for Reason 1.4 (b,d)

[1](#)1. (U) Summary: Despite inconsistent results from new test wells, Burma's oil and gas potential continues to draw significant interest and investment from China, Russia, India, Thailand, Malaysia, Korea, and Japan. The regime has granted exploration rights to all remaining blocks just offshore Burma's coast. China appears to be the leader in a hotly contested campaign to win rights to natural gas from the Shwe Fields in the Bay of Bengal, which should be the first of several new fields to begin production. Other competitors, however, have not given up. End summary.

Shwe Fields Seeking a Buyer

[1](#)2. (SBU) A consortium lead by Daewoo, together with partners Korean Gas Corporation, India's ONGC Videsh, and GAIL India, continue to develop resources found in three gas fields in blocks A-1 and A-3, in the Bay of Bengal off Burma's Rakhine coast (ref B). Ten companies from China, India, Thailand, Korea, and Japan have expressed interest in gas deliveries from the Shwe fields. Unsatisfied with the initial prices offered, the Myanmar Gas and Oil Enterprise (MOGE) called for more bids in December. Myint Kyi of the Myanmar Oil and Gas Enterprise said the GOB sought bids above the price Thailand currently pays for its natural gas from Burma (\$6.60 to \$6.75 per million BTUs). Kogas of Korea and Marubeni of Japan reportedly were the highest bidders at \$7.00 per mm BTUs, but the GOB did not accept the bids.

[1](#)3. (C) GOB officials stated that they would decide on the

market for gas from the Shwe fields only in May, after they receive results of exploration of A-3. However, on March 21, international press reported that MOGE had signaled its intent to sell the gas to PetroChina if it offered a good price. Reportedly, MOGE called consortium partners to Rangoon the week of March 26 to discuss the sale to China. Korean and India press expressed frustration at the GOB decision. The Korean Charge, Kwang Ju Choi, told econoff he believed the announcement was a GOB negotiating ploy, and that the final winner would still be the company that offered the best deal. Rajendra Khanna, Commercial Counselor from the Indian Embassy, told us that he believed MOGE gave the deal to China on Senior General Than Shwe's orders just after China's veto of the Burma resolution in the UN Security Council.

¶4. (SBU) About 40% of the production from A-1, two trillion cubic feet (tcf), is intended for domestic use, according to Soe Myint, Director of the General Energy Planning Division in the Ministry of Energy, with the remainder to be exported. He told the press, "We will give first priority to domestic use." Contacts at the Korean Embassy tell us that the GOB has pressured Daewoo to move the delivery date up to 2010.

¶5. (SBU) Indian sources tell us that the estimates of reserves in the Shwe fields do not show enough volume for exports to both India and China. If India won the bid to import gas from Shwe fields, it planned to build a pipeline to Northeast India bypassing Bangladesh. Bangladesh reportedly has begun to reconsider its earlier refusal to allow a pipeline through its territorial waters absent significant Indian concessions in other areas, but Indian Embassy sources tell us it is too late for that option.

Thailand Strikes Gas, Malaysia Strikes Out

RANGOON 00000313 002.6 OF 004

¶6. (U) This year, PTTEP of Thailand discovered natural gas reserves in three wells in block M-9. The first, in Zawtika field, is estimated to hold 3.2 tcf, but estimated reserves in the Gawthaka and Kakonna wells were not announced. PTTEP spokesman Sitthichai Jayant characterized the finds as "very promising." He told the press that the company planned to drill one exploration well and up to five appraisal wells to confirm the reserves, and hoped to start production in 2011 or 2012. PTTEP is in partnership with Myanmar Oil and Gas Enterprise in block M-9.

¶7. (C) A contact from the Malaysian firm Petronas told us that the company spent \$130 million to drill seven undersea wells to the east, west and south of the operating Yetagun field, but found nothing. He expressed doubts that Petronas would finance further exploration in the area.

Take A Number and Wait in Line

¶8. (C) GOB offered new blocks for exploration to boost reserve estimates, to make a pipeline or an LNG plant more economically viable and to generate fast cash. Moe Myint, CEO of MPRL, Ltd., one of the companies that recently signed an exploration agreement, said that the gas discoveries in the Shwe fields prompted a general reassessment of the geology off Burma's coast, which boosted estimates of the volume and configuration of potential reserves. Despite the cost of digging an exploration well in Burma - up to \$20 million according to another oil company source - many companies have expressed interest in exploiting this potential. Between January and March 2007, the GOB signed numerous deals for the remaining available blocks along Burma's coast and further offshore. The GOB signed agreements with companies from:

-- South Korea: In February, Daewoo and MOGE signed a production sharing agreement for exploration, drilling and production in block AD-7, west of the Shwe field.

-- Burma: MPRL Ltd., based in the British Virgin Islands with offices in Singapore and Burma, signed an agreement to explore in block A-6. MPRL is the only company in the sector that is run by a Burmese CEO, Moe Myint. MPRL has operated onshore since 1997. MPRL reportedly has a six-month period to review studies and will pay the GOB \$2 million if it decides to go ahead with exploration, estimated to cost up to \$33 million.

-- China: China National Petroleum Corporation signed a contract with MOGE to explore deepwater blocks AD-1, AD-6 and AD-8. These blocks cover 10,000 square kilometers and border the Shwe fields to the north, south and west. Total operated AD-6 from 1974-76, and drilled one well, but found no oil or gas.

-- Singapore/Malaysia: UNOG of Singapore, together with Rimbunan Petrogas, based in the British Virgin Islands and run by a Malaysian businessman, signed an agreement to explore blocks M-1 and A-5 off the Rakhine coast. Total had drilled wells also in block A-5 in the mid-1970s, but found no oil or gas.

¶9. (U) These deals join other recent and existing agreements with companies from:

-- Russia/India: Zarubezhneft Itera from Russia and Sun Group of India partnered with MOGE for exploration in block M-8.

RANGOON 00000313 003.6 OF 004

-- India/Singapore: GAIL India and Silver Wave Energy from Singapore/Russia will develop block A-7.

-- Thailand: PTTEP has rights to explore blocks M-3, 4, 7, 9 and 11.

-- Malaysia: Petronas has interest in blocks M-15, 16, 17 and ¶18.

-- France/US/Thailand: Total, Unocal and PTTEP are partners in a consortium with MOGE in the successful Yadana field in M-5 and M-6.

-- Malaysia/Thailand/Japan: Petronas, PTTEP and Nippon Oil produce gas and condensates from the Yetegun field in M-12, 13 and 14.

A Pipeline or a Floating Plant?

¶10. (SBU) The decision on whether an LNG plant or pipeline will be built depends on results from exploration efforts. The GOB sees an LNG plant as more attractive, because they would be able to get higher prices from a larger market. Reserves of at least 6 tcf are necessary to make construction of a LNG plant profitable, according to oil industry sources. Our contact said that the plant could be fixed to the sea floor or float on the surface. The floating technology is cheaper, he said, and with the unpredictable political environment, would be more attractive to investors because they could tow the plant away if problems arose. Korean and Japanese firms have submitted bids for LNG plants, but would likely demand long-term contracts.

¶11. (U) China is interested only in pipelines. China National Petroleum Corp. announced in January that it had launched a feasibility study with MOGE for a gas pipeline to Kunming and a shipping terminal at Kyauk Phyu on the Rakhine coast. CNPC will evaluate adding a crude oil pipeline on the same route. Khanna said that China was not concerned about the volume of gas from the Shwe fields, because it was more interested in the second pipeline, which would create an alternate access route for crude oil imports from the Middle East, avoiding the Straits of Malacca. A Vice President of PetroChina Planning and Engineering Institute said China

would build a refinery near Kunming to process the crude. According to one source, a PetroChina deal includes a \$160 million soft loan to the GOB if the Burmese regime allows the pipeline to China.

¶12. (SBU) In February, the Indian press reported that the GOB had approved Indian development of the port at Sittwe, the terminus of the Kaladan multi-modal project to give greater access to northeastern Indian states. Contacts told us that early estimates came in at costs ten times greater than the projected amount of \$103 million, and the GoI had begun to rethink the plan. Other sources tell us that, if gas from the Shwe fields were sent to China, the deal would be called off.

¶13. (U) The MOGE announced that it will conduct a feasibility study on a pipeline from Kyauk Phyu to an existing pipeline in Pyay in Bago Division for domestic use. GOB officials hope to pipe gas from 2010 if Daewoo can advance development of Shwe Field.

Onshore

¶14. (U) Recently, the GOB quietly lifted its two-year old decision to close the onshore sector to new foreign

RANGOON 00000313 004.6 OF 004

investment. On March 16, Silver Wave Sputnik Petroleum and Silver Wave Energy, two Singapore-based Russian companies, signed an agreement for onshore oil and gas exploration with MOGE. The production-sharing contracts cover exploration, drilling, and production of oil and gas in block B-2. The MOGE Managing Director, the Minister for Energy of the Republic of Kalmykia in the Russian Federation, and the Chairman of Silver Wave Energy signed the contract in Nay Pyi Taw. Russian press stated that Silver Wave Sputnik Petroleum acted on behalf of Kalmykia, and that another Kalmykia company would manage the project. In January, a new well in Burma's largest producing onshore field in northern Rangoon Division yielded 600,000 cubic feet of gas over nine hours, and prompted MOGE to raise production targets. Seven foreign firms currently operate in 19 onshore fields.

¶15. (SBU) Comment: Burma has opened the door to anyone who wants to sign an agreement and pay a bonus, and found numerous takers. Future payoff for these companies, and for the government, however, is anything but guaranteed. With exploration equipment in short supply and unproven reserves, it could be some time before investors would see any returns.

Pipeline construction will have to clear the hurdles of distance, difficult terrain, displaced populations, and environmental damage. The latter two issues would not trouble the GOB or partners like the Chinese or Indians. LNG plants would require huge capital investment in a nation with an unreliable ruling regime. End comment.

VILLAROSA